

**MINUTES  
BOARD OF TRUSTEES OF THE  
PUBLIC EMPLOYEES' RETIREMENT FUND  
143 West Market Street, Suite 500  
Indianapolis, IN 46204  
November 14, 2003**

**EXECUTIVE SESSION**

Trustees Present

Jonathan Birge, Chair  
Richard Doermer, Vice Chair  
Garland E. Ferrell  
Connie R. Thurman  
Robert V. Welch

Others Present

Craig Hartzler, PERF Executive Director  
Bruce Kimery, PERF Deputy Executive Director/Chief Benefits Officer  
Leisa Julian, PERF General Counsel  
Forrest Bowman, Attorney at Law, Bowman Cosby & Bowman  
Mary Beth Braitman, Ice Miller

The Board met in Executive Session to discuss matters under IC 5-14-1.5-6.1(b)(2)(B) and IC 5-14-1.5-6.1(b)(7).

**REGULAR SESSION**

Trustees Present

Jonathan Birge, Chair  
Richard Doermer, Vice Chair  
Garland E. Ferrell  
Connie R. Thurman  
Robert V. Welch

Others Present

Mary Beth Braitman, Ice Miller  
Stephanie Brame, Mercer  
Scarlett Ungurean, Mercer  
Douglas Todd, McCready & Keene, Inc.  
Elaine Beaty, McCready & Keene, Inc.  
Richard Boggs, Burnley Associates  
Tim Juergensen, Juergensen Consulting

PERF Staff

Craig Hartzler, PERF Executive Director

Bruce Kimery, PERF Deputy Executive Director/Chief Benefits Officer  
Leisa Julian, PERF General Counsel  
Michael Horstman, PERF Chief Financial Officer  
Tom Parker, PERF 77 Fund Director  
Robin Wood, PERF, Financial Planning Manager  
Sally Burton, PERF Procurement Officer  
Patrick Lane, PERF Communications Director  
Tony Prizevoits, PERF Outreach Manager  
Donavan Cartwright, PERF Call Center Manager  
Mark Willis, PERF Investment Analyst  
Bill Moran, PERF Compliance Administrator  
Joseph Duncan, PERF Investment Analyst  
Diann Clift, PERF MIS Director  
Caroline Bradley, PERF Internal Auditor  
Cindy Osborne, PERF Minute Writer

ITEMS MAILED TO THE BOARD PRIOR TO MEETING

- A. Investment Committee Agenda
- B. Investment Committee Minutes for November 14, 2003
- C. Audit and Budget Agenda
- D. Audit and Budget Minutes for September 12, 2003
- E. Board of Trustees Agenda
- F. Board of Trustees Minutes for November 14, 2003

I. APPROVAL OF MINUTES

**MOTION** duly made and carried to approve the Minutes of the October 10, 2003 Board of Trustees Meeting.

*Proposed by: Richard Doermer*  
*Seconded by: Garland Ferrell*  
*Votes: Five in favor, 0 against, 0 abstentions.*

II. OLD BUSINESS

There was no old business discussed.

III. NEW BUSINESS

- A. BURNLEY COMPLIANCE REPORT. Mr. Boggs summarized some of the guidelines and explained that the portfolio activities are monitored monthly. He commented on Asset Allocation as an important determinant of investment rates of return and over a long

period of time, stocks have returns which are six hundred basis-points higher than bonds. He also summarized Investment Guidelines showing that managers must operate within the investment style for which they were hired, and abide by specific constraints and limitations, which may apply to each style.

Mr. Boggs talked about Security Lending and Fees and explained lending income during the first nine months of 2003 fell to \$1.8 million with the transition to new custodian and lending agent, while fees rose as actively-managed equity portfolios received assets from bonds and lower-fee funds. Mr. Boggs also commented on Trading and Brokerage, and Proxy Voting, all aids to help PERF Trustees with their duty to oversee compliance with the Fund's Investment Policy.

- B. Update on Mutual Fund Investigation. Ms. Braming explained to the Board the issues regarding the investigation surrounding one of PERF managers, Strong Capital Management. PERF is not invested in mutual funds, PERF is invested in a separate account. PERF funds were not affected. Ms. Braming noted that Mercer downgraded all of Strong's strategies from the highest conviction to their second highest conviction due to the organizational uncertainties surrounding the firm. No changes are being recommended to PERF at this time because the team remains intact and the process remains sound for the account that PERF is invested in. There has been no misconduct alleged or found for any team members that are managing PERF monies. Ms. Braming assured the Board that PERF has not been affected by this and that at this time there is no concern for PERF. Ms. Braming also noted that the average manager is up 23.5%. Ms. Braming explained to the Board that Mercer will keep PERF apprised and assured the Board that everything heard about Strong, although affects their company, does not directly affect PERF's investment with Strong Capital Management. Ms. Braming advised the Board that no other funds in which PERF invests had any issues.
- C. Mercer Third Quarter 2003 Market Environment: Ms. Ungurean provided an overview of the third quarter 2003 market environment.

Ms. Ungurean noted that overall there was strong consumer spending. September was a challenging month with negative returns. From a market perspective, the domestic markets were up. Small companies performed better than large companies, technology performed better than small companies. Growth performed better than value. Health, energy and utilities lost ground. There were some negative returns for the quarter for the

fixed income market. Certain aspects of the market did better than others. Shorter term outperformed longer term maturities. For the international equity market, emerging markets outperformed developed markets. International returns were very strong this quarter. Overall, the Fund was up \$0.4 billion dollars. There was strong performance by most of the managers and the managers are performing according to how they were expected to perform in this economy.

- D. PERF Salary/Compensation Model Draft. Mr. Hartzler discussed with the Board ideas regarding pay increases for PERF colleagues. Mr. Hartzler noted that the State adopted a 2% increase effective January 1. In addition to the 2% increase \$884 was added into the base pay of all state workers to help compensate for increases in health insurance. Mr. Hartzler noted that because PERF is a quasi-governmental agency, PERF has more flexibility in how the 2% increase can be distributed. Mr. Hartzler proposed that the lowest paid PERF colleagues get the highest percentage increase while some of the highest paid PERF colleagues will not receive an increase. Mr. Hartzler noted that the overall percentage increase will still fall within the 2% increase as adopted by the State. Mr. Hartzler noted that all PERF colleagues will receive the \$884 increase added to their base salary. Mr. Hartzler noted that a formal recommendation will be presented at the December meeting. Mr. Kimery noted that the increases will be effective on the December 31<sup>st</sup> paycheck. Mr. Hartzler also noted that this increase has already been built into the PERF budget.
- E. Document of Strategic Intent. Mr. Hartzler passed out copies of the Document of Strategic Intent (DOSI) to the Board. Mr. Hartzler explained to the Board that he would like for all PERF colleagues to view the DOSI prior to Board approval and that an all staff meeting will be taking place on November 18<sup>th</sup> and the DOSI will be presented for staff review at that time. Mr. Hartzler noted that he would like to bring the DOSI before the Board for approval at the December Board meeting. Ms. Thurman explained that she was a member of the Steering Team that prepared the DOSI and she felt that the team was a great mix of new and older PERF colleagues and that participation was very positive and productive. Mr. Hartzler noted that he feels the DOSI will help drive the agency forward.
- F. Investment Matters.  
**MOTION** duly made and carried to give approval to ratify the action taken to move \$150 million from Northern Trust Lehman Index account, one of our fixed income accounts, to the international growth fund mandate with Baillie Gifford.

*Proposed by: Richard Doermer*  
*Seconded by: Connie Thurman*  
*Votes: Five in favor, 0 against, 0 abstentions*

**MOTION** duly made and carried to give approval to give authorization to the Executive Director to take action, if necessary, to ensure that the remaining securities with the GE portfolio are managed by one of our current managers pending the funding of the international value mandate, and then to subsequently move the temporary holdings into the international value manager's account when the account is set up.

*Proposed by: Robert Welch*  
*Seconded by: Garland Ferrell*  
*Votes: Five in favor, 0 against, 0 abstentions*

G. Committee Reports.

- Benefits Committee Report. Mr. Kimery detailed the year-to-date report as of October, 2003.
- Mr. Kimery noted that the PERF headcount is at 93 positions, which is 14 positions under budget. He also noted that numerous positions are in various stages of the hiring process.
  - Mr. Kimery noted that under personal services, the variance is primarily due to cost associated with open positions
  - Mr. Kimery noted that professional services is under budget due to the fact that the budget was amended for professional services per approval of the Board.
  - Mr. Kimery noted that communications expenses are under budget. The printing budget is favorable to actual expenses due to a decrease in printing requests.
  - Mr. Kimery noted that miscellaneous costs are under budget due to lower office expenses and data processing. Travel and training are under budget at this point but should increase to near budget in this fiscal year.

**MOTION** duly made and carried to approve the Line of Duty Death benefit claim filed for George A. Walker as recommended

by the 1977 Police & Fire Advisory Committee and the Benefits Committee.

*Proposed by: Connie Thurman*  
*Seconded by: Robert Welch*  
*Votes: Five in favor, 0 against, 0 abstentions*

- Investment Committee Report. Chair Birge noted that the Investment Committee discussions should be adopted at the Board level.

**MOTION** duly made and carried to accept the recommendation of the Investment Committee to implement alternative G of the Asset Liability Study.

*Proposed by: Robert Welch*  
*Seconded by: Garland Ferrell*  
*Votes: Five in favor, 0 against, 0 abstentions*

**MOTION** duly made and carried to accept the recommendation of the Investment Committee to approve the selection of Delaware International Advisors as PERF's International Value Manager.

*Proposed by: Richard Doermer*  
*Seconded by: Jonathan Birge*  
*Votes: Five in favor, 0 against, 0 abstentions*

**MOTION** duly made and carried to accept the recommendation of the Investment Committee to extend the temporary assignment to Barclay up to six months.

*Proposed by: Robert Welch*  
*Seconded by: Connie Thurman*  
*Votes: Five in favor, 0 against, 0 abstentions*

**MOTION** duly made and carried to accept the recommendation of the Investment Committee to approve the amended Alternative Investments Procedures.

*Proposed by: Robert Welch*  
*Seconded by: Garland Ferrell*  
*Votes: Five in favor, 0 against, 0 abstentions*

**MOTION** duly made and carried accept the recommendation of the Investment Committee to approve the new Information Disclosure Policy for alternative investments.

*Proposed by: Garland Ferrell*  
*Seconded by: Robert Welch*  
*Votes: Five in favor, 0 against, 0 abstentions*

#### IV. REPORT OF EXECUTIVE DIRECTOR

- A. Operations Update. Mr. Hartzler asked the Board how they wanted to run the recruitment process regarding the CIO. Chair Birge decided to have further discussions at the next Investment Committee meeting.
- B. Articles and Bylaws of new IT Corporation. Mr. Hartzler noted that new articles and bylaws were adopted at the last Board meeting. He noted that the TRF Board adopted articles and bylaws, as well, but made one change. Ms. Braitman noted that TRF wanted to change both TRF appointments to be made through the Board of Trustees. Chair Birge noted that a motion should be made to be consistent.

**MOTION** made and duly carried to amend the Articles and Bylaws of IT Board appointments of PERF so that they all come from the PERF Board.

*Proposed by: Garland Ferrell*  
*Seconded by: Richard Doermer*  
*Votes: Five in favor, 0 against, 0 abstentions*

- C. New Appointment: Mr. Hartzler brought before the Board discussion on possible appointees for the fifth position for the IT board of directors. Chair Birge noted that he would like more discussion on this issue at next meeting. Mr. Hartzler noted that he would try to have names for approval at the next Board meeting.
- D. 125 Building Update: Mr. Hartzler discussed with Board options for what to do with the 125 building. Mr. Hartzler noted that all staff will be out of the building by the end of April, 2004.
- E. Unlicensed Software Audit. Mr. Hartzler noted that PERF has made good progress. Ms. Bradley noted that more information would be available at the next Audit and Budget meeting.
- F. JP Morgan Chase. Mr. Hartzler noted that he would like to invite JP Morgan Chase to the next Board meeting so the Board can meet them and learn more about what they do.

- G. Internal Control Issues. Mr. Hartzer asked the Board to respond to him if they had any comments regarding the internal control issues.
  - H. Personnel. Mr. Hartzer noted that out of the 93 PERF colleagues, we have four people that have been with PERF from 26 to 39 years and 53 have been with PERF three years or less. Mr. Hartzer also noted the educational background percentages of PERF colleagues.
- V. ADJOURNMENT. There being no other business, the meeting was adjourned.